

Message Text

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PAGE 01 STATE 080470

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C:JMONTGOMERY

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FM SECSTATE WASHDC

TO AMEMBASSY MOSCOW

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CONFIDENTIAL STATE 080470

EXDIS

E.O. 11652: GDS

TAGS: EEW, ENRG, US, WG, FR, US

SUBJECT: NORTH STAR LNG PROJECT

1. SUMMARY: IN MEETING WITH ASSISTANT SECRETARY GREENWALD REPRESENTATIVES OF NORTH STAR CONSORTIUM APPEARED TO EXPECT THAT SOVIETS WOULD GIVE GO AHEAD TO PROJECT. SOVIET DECISION EXPECTED IN MAY. OWNERSHIP OF LNG TANKERS HAS NOT BEEN DECIDED. SOVIETS, HOWEVER, ACCORDING CONSORTIUM, ARE CONCERNED THAT USG MAY TURN DOWN NORTH STAR GAS ONCE SOVIETS HAVE APPROVED. DEPT. TOLD CONSORTIUM THAT USG CURRENTLY EVOLVING POLICY TOWARD LNG IMPORTS AND THAT NORTH STAR WILL BE CONSIDERED ON ITS MERITS. FIGURE OF 1 TCF/YR BY 1985 IN PRESIDENT'S ENERGY MESSAGE IS INTENDED AS APPROXIMATE TARGET, NOT ABSOLUTE

CONFIDENTIAL

CONFIDENTIAL

PAGE 02 STATE 080470

CEILING. END SUMMARY.

2. ASSISTANT SECRETARY FOR EB GREENWALD AND DEPUTY
ASSISTANT SECRETARY JULIUS KATZ MET WITH JACK RAY,
PRESIDENT OF TENNECO AND NEVIL PROES, PRESIDENT OF TEXAS
EASTERN MARCH 31 TO DISCUSS STATUS OF NORTH STAR LNG
PROJECT. FOLLOWING ARE HIGHLIGHTS OF DISCUSSION.

3. PROJECT STATUS. CONSORTIUM HAS BEEN IN FREQUENT

TOUCH WITH SOVIETS SINCE JANUARY NEGOTIATIONS IN MOSCOW
AND EXPECTS TO HEAR FROM THEM DEFINITELY IN MAY.
CONSORTIUM REPRESENTATIVES MAY HAVE TO GO BACK TO MOSCOW
BEFORE THEN TO CLEAR UP SOME PROBLEMS. CONSORTIUM
APPEARS TO EXPECT SOVIETS WILL GO AHEAD WITH PROJECT. IF
SO, CONSORTIUM WOULD NOT BE READY TO SUBMIT CONTRACT
TO FEDERAL POWER COMMISSION BEFORE END OF YEAR. CONSOR-
TIUM HOPES TO HAVE FIRST GAS PUMPING BY 1981 WITH FULL
PRODUCTION BEGINNING IN 1983.

4. USG ATTITUDE.

--(A) CONSORTIUM ASKED ABOUT RELATIONSHIP BETWEEN ENERGY
RESOURCES COUNCIL TASK FORCE REVIEW OF LNG PROJECTS
AND FPC AUTHORITY TO APPROVE LNG CONTRACTS. THE CONSOR-
TIUM INDICATED THAT IT HOPED FPC ACTION WOULD TAKE NO
MORE THAN A YEAR AND IT WAS CONCERNED THAT ERC INVOLVE-
MENT WOULD UNDULY DELAY THE PROCESS. COMMENTING ON
TARGET OF ONE TRILLION CUBIC FEET PER YEAR BY 1985
MENTIONED IN PRESIDENT'S ENERGY MESSAGE, CONSORTIUM STATED
IT IS NOT TOO WORRIED ABOUT THIS, SINCE IT BELIEVES
FUTURE US DEMAND FOR GAS WILL MAKE IT IMPOSSIBLE TO HOLD
TO THE 1 TCF TARGET, BUT THAT SOVIETS HAD BROUGHT IT UP.
SOVIETS HAD ASKED CONSORTIUM HOW IT COULD GO AHEAD WITH
NORTH STAR WHEN USG HAD SET A LIMIT WHICH WOULD PRECLUDE
IMPORTATION OF NORTH STAR GAS.

--(B) IN RESPONSE TO THESE QUESTIONS IT WAS POINTED OUT
THAT THE ADMINISTRATION WAS CURRENTLY IN THE PROCESS OF
DEVELOPING A POLICY TOWARD LNG AND THE ENERGY MESSAGE
WAS INTENDED AS A STEP IN THAT DIRECTION. IT WAS NOT
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PAGE 03 STATE 080470

INTENDED TO PUT A RIGID CEILING ON IMPORTS OF 1 TCF/YEAR
BUT TO BE AN APPROXIMATE TARGET WHICH COULD BE MODIFIED,
DEPENDING ON FUTURE DEVELOPMENTS, INCLUDING THE DECISION
ON DEREGULATION OF DOMESTIC GAS PRICES. (FYI, THE 1
TCF/YEAR TARGET WAS CITED IN THE PRESIDENT'S ENERGY
MESSAGE AS THE AMOUNT THAT WOULD PROBABLY NOT CREATE
SECURITY OF SUPPLY PROBLEMS. END FYI.) IT WAS POINTED
OUT TO THE CONSORTIUM THAT FPC HAD INVARIABLE TAKEN

LONGER THAN A YEAR TO DECIDE CONTRACTS SUBMITTED TO IT.

--(C) ACCORDING TO CONSORTIUM, SOVIETS HAVE DISPLAYED EXTRAORDINARY SENSITIVITY TO POSSIBLE OFFICIAL AND PUBLIC OPPOSITION IN US TO NORTH STAR. SOVIETS APPARENTLY FEAR THAT IF THEY AGREE TO GO AHEAD WITH PROJECT USG FOR POLITICAL OR ENERGY POLICY REASONS OR IN RESPONSE TO PUBLIC PRESSURE, MIGHT BAN NORTH STAR IMPORTS FROM US. IF AGREEMENT IS REACHED IN MAY, NO PUBLIC ANNOUNCEMENT

WILL BE MADE, BUT WITH WEST EUROPEANS INVOLVED IN PROJECT AND WEST EUROPEAN PRESS SHOWING INTEREST IN IT, IT WILL BE DIFFICULT TO KEEP AGREEMENT UNDER WRAPS INDEFINITELY. SOVIETS WOULD BE REASSURED IF THEY HAD SOME POLITICAL SIGNAL FROM USG THAT IT WOULD NOT OPPOSE NORTH STAR ON POLITICAL GROUNDS. DEPARTMENT RESPONDED THAT ANYTHING WHICH WE DO WITH SOVIETS MAY HAVE SOME POLITICAL RISK, ESPECIALLY IN THE VOLATILE ATMOSPHERE OF AN ELECTION YEAR, BUT DECISIONS ON THIS COMMERCIAL VENTURE SHOULD BE MADE PRIMARILY ON COMMERCIAL GROUNDS. IT WAS STRESSED TO THE CONSORTIUM THAT SO FAR ERC DELIBERATIONS HAD FOCUSED ON THE GENERAL QUESTION OF LNG IMPORTS, NOT IMPORTS FROM THE USSR OR ANY OTHER PARTICULAR COUNTRY. THE ERC WILL TREAT NORTH STAR ON ITS MERITS WHEN IT COMES UP FOR CONSIDERATION, BUT WE ARE UNABLE TO GIVE ENDORSEMENT IN ADVANCE.

5. PRICE. CONSORTIUM HAS TALKED PRICE WITH THE SOVIETS IN GENERAL TERMS, STRESSING THAT LANDED PRICE OF NORTH STAR GAS WOULD HAVE TO BE COMPETITIVE WITH PREVAILING PRICE OF IMPORTED FUEL (INCLUDING OTHER LNG IMPORTS IN US EAST COAST MARKET). PRICING ARRANGEMENT WOULD CONTAIN ESCALATOR WHICH WOULD BE PEGGED TO MOVEMENTS OF EAST

CONFIDENTIAL

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PAGE 04 STATE 080470

COAST GAS PRICE.

6. TANKERS. ACCORDING TO CONSORTIUM, CONTROL AND FINANCING OF TANKERS HAS NOT BEEN SETTLED. SINCE FRENCH NOW TAKING QUARTER OF NORTH STAR OUTPUT, SIXTEEN OR SEVENTEEN TANKERS NOW REQUIRED FOR DELIVERIES TO US MARKET. SOVIETS STILL INSIST ON HAVING CONTROL OF SOME TANKERS, BUT ACCORDING TO BUSINESS EXECUTIVE THERE IS SENTIMENT ON THEIR SIDE THAT THE TANKERS ARE AN EXTRA ECONOMIC BURDEN WHICH SHOULD NOT BE SHOULDERED. CONSORTIUM ITSELF DOES NOT APPEAR CERTAIN HOW MANY TANKERS IT WANTS TO BUILD, BECAUSE OF FINANCING PROBLEMS. IT WAS POINTED OUT THAT THERE IS SUBSTANTIAL INTEREST IN THIRD COUNTRIES IN BUILDING LNG TANKERS.

7. ENVIRONMENTAL IMPACT. CONSORTIUM DESCRIBES ENVIRONMENTAL IMPACT STATEMENT REQUIRED FOR TERMINAL FACILITY AT DEPTFORD, NEW JERSEY, AS ONE OF MOST DIFFICULT PROBLEMS IT FACES. CONSORTIUM HAS ALREADY BEGUN PRELIMINARY WORK ON ITS STATEMENT.

8. CONSORTIUM STATED THAT FINANCIAL SUPPORT FOR NORTH STAR IN WESTERN EUROPE IS SOLID. CURRENT PLANS FOR FRENCH TO FINANCE LIQUEFACTION PLANT WITH COMMERCIAL

CREDITS GUARANTEED BY GOVERNMENT IN THE AMOUNT OF ALMOST \$3 BILLION. FRG BANKS WILL PROVIDE SIMILAR AMOUNT TO FINANCE PIPELINE AND COMPRESSORS, AND THE REST WILL COME FROM UK.

9. COMMENT. CONSORTIUM APPEARS CONFIDENT SOVIETS WILL AGREE TO GO AHEAD WITH NORTH STAR, DESPITE CONCERNS ABOUT USG ATTITUDE. WE DID NOT DISCUSS POSSIBLE SOVIET RESERVATIONS RELATED TO DOMESTIC SOVIET PROBLEMS. WE UNDERSTAND THAT SOVIET MINISTRY OF GAS HAS SOME DOUBT ABOUT ITS ABILITY TO CARRY OUT THE PROJECT IN ADDITION TO ITS OTHER TASKS UNDER NEW FIVE YEAR PLAN (MOSCOW 3023). THERE IS ALSO QUESTION OF WHETHER SOVIETS MIGHT NOT WISH TO USE NORTH STAR GAS TO MEET DOMESTIC NEEDS.

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PAGE 05 STATE 080470

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